2004 ANNUAL REPORT

results higher than ever

بنك الخليج
GULF BANK
ALWAYS MORE

H. H. Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah
The Amir of the state of Kuwait

H. H. Sheikh Saad Al-Abdallah Al-Salem Al-Sabah
The Crown Prince

H. H. Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah
The Prime Minister

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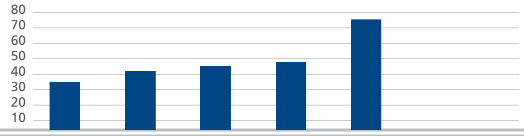
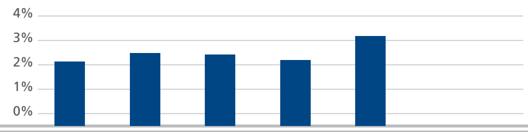
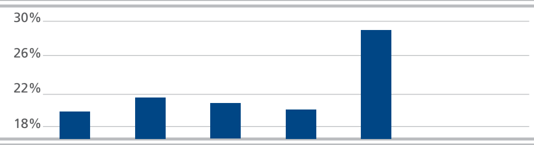


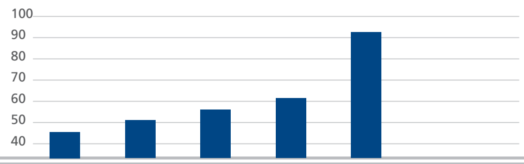
PROFITS FOR THE YEAR	2000	2001	2002	2003	2004
KD MILLIONS	35.4	42.1	45.5	48.5	74.6



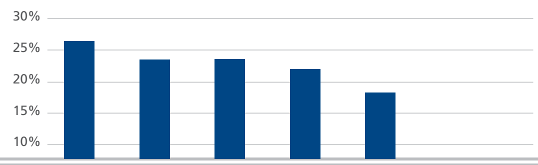
RETURN ON AVERAGE ASSETS	2000	2001	2002	2003	2004
PERCENT	2.07	2.39	2.35	2.16	3.13



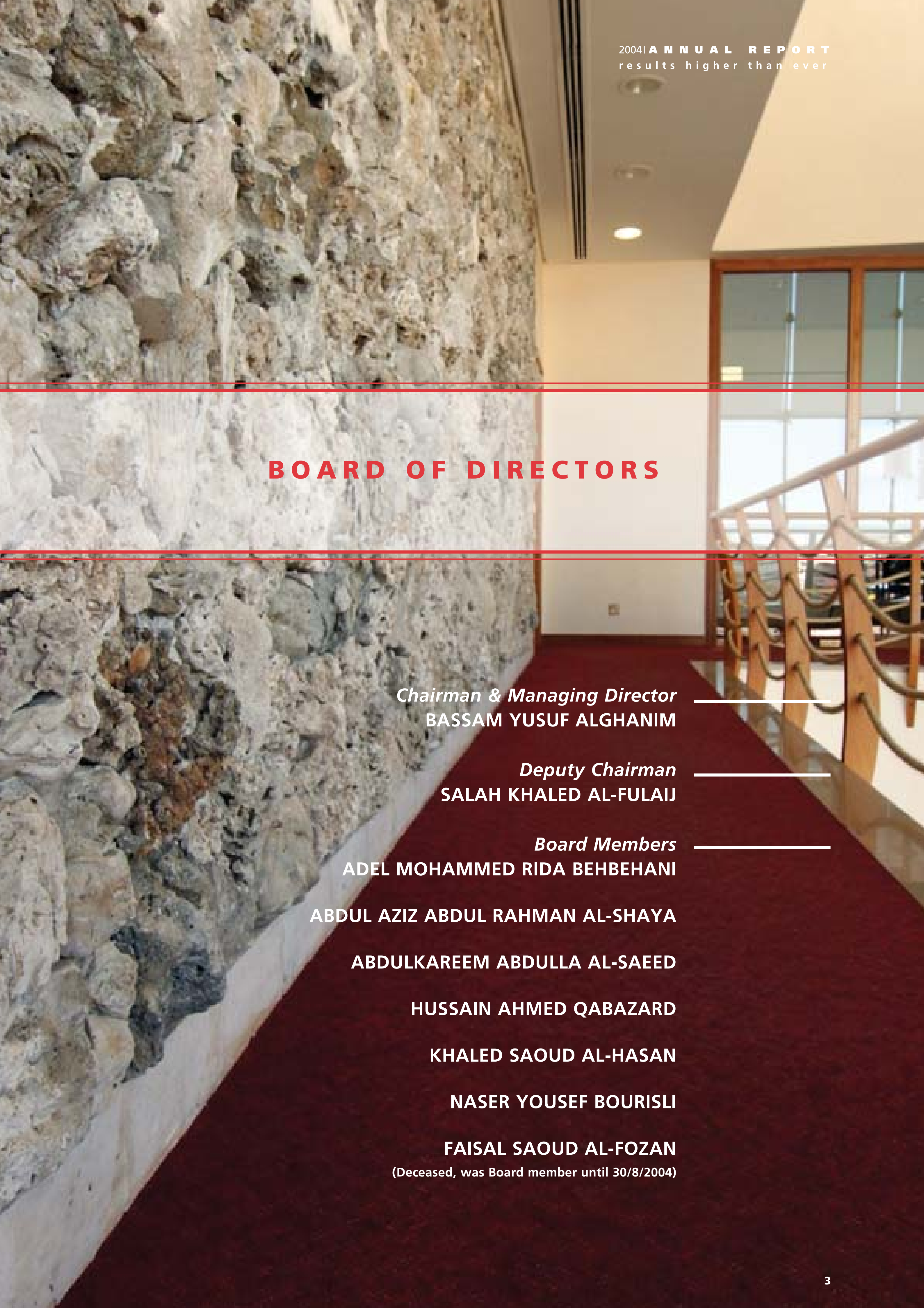
RETURN ON AVERAGE SHAREHOLDERS FUNDS	2000	2001	2002	2003	2004
PERCENT	19.8	21.9	21.4	20.0	28.4



EARNINGS PER SHARE	2000	2001	2002	2003	2004
FILS	45.4	51.9	56.9	60.8	91.3



COST TO INCOME RATIO	2000	2001	2002	2003	2004
PERCENT	26.6	24.1	24.2	22.0	18.1



BOARD OF DIRECTORS

Chairman & Managing Director
BASSAM YUSUF ALGHANIM

Deputy Chairman
SALAH KHALED AL-FULAIJ

Board Members
ADEL MOHAMMED RIDA BEHBEHANI

ABDUL AZIZ ABDUL RAHMAN AL-SHAYA

ABDULKAREEM ABDULLA AL-SAEED

HUSSAIN AHMED QABAZARD

KHALED SAOUD AL-HASAN

NASER YOUSEF BOURISLI

FAISAL SAOUD AL-FOZAN
(Deceased, was Board member until 30/8/2004)

CHAIRMAN'S MESSAGE

RESULTS HIGHER THAN EVER

2004 marks the fifth consecutive year of unparalleled growth and profit for Gulf Bank. The significant investment in technology, branches and people since 1999 continues to yield dramatic improvements in customer service, operating performance, market share and bottom line profitability. The record breaking 2004 financial results validate the

Bank's Transformation Strategy which we launched in 1999 and the Actualization Strategy which commenced in 2003 and continued in 2004 to meet the challenges in the ever-changing economic environment.

Delivering excellent shareholder value through superior customer focus remains the long-term objective for the Bank. Gulf Bank takes great pride in its achievements and looks ahead to register ever stronger profitability in 2005 as the Actualization Strategy takes hold and revolutionizes banking in Kuwait.

Gulf Bank's 2004 record results are the result of strong performance across all business groups. Core operating profitability was driven by robust loan growth and an improved net interest margin. Record profits of KD74.6 million (USD 253.3 million) for the financial year ending December 31, 2004 showed a remarkable 54% rise over the impressive results posted last year.

We also delivered major improvements in the Bank's key profitability and shareholder return measures. Return on Assets rose to 3.13% and Return on Equity increased to 28.4% – both returns are exceptionally high by international banking standards. Net interest income increased by 23%, fees and commissions grew by 15%.

Gulf Bank maintains an edge over its competitors as the only bank in Kuwait to have consistently grown its core customer base over the past five years. The Bank increased its market share in most areas due to improvements in its customer service, product range and distribution network. Gulf Bank continues to offer a wider product range through a broader distribution channel mix that includes branch and ATM networks, internet banking, online trading, wireless banking and telebanking. Our aim is to diversify the Bank's income streams in order to continue growing our core operating earnings.

Chairman's Message continued...

As the most efficient financial institution in Kuwait, Gulf Bank continues to maintain the lowest cost to income operational efficiency ratio in the industry, while still investing heavily in its business. Its industry-beating cost to income ratio improved to 18.1%, as the cost growth of 9.6% was offset by the impressive 33.3% growth in operating income. Gulf Bank achieved its efficiency through back office rationalization, automation and business process re-engineering, while continuing to invest in new branches, IT systems and human resources.

Gulf Bank's asset quality is good and non-performing loans are well covered by loan loss provisions. Gulf Bank's funding base is supported by its strong position in the retail savings market.

Gulf Bank also delivered impressive record earnings per share for the year ended 2004 of 91.3 fils, a 50% jump over the 60.8 fils for the previous year.

Gulf Bank became the first Kuwaiti commercial bank to completely eliminate its Government Debt Bonds in October 2004. The elimination of Debt Bonds benefits the bank as it is a major revenue booster, allowing the Bank to use its assets in more productive and higher yielding customer business, which bodes well for continued growth in the future.

The excellent financial results are the result of our key strategies and our commitment to innovation and superior customer service. I would like to take this opportunity to highlight some of the key successes and strategic initiatives in each of our Business Groups in 2004.

The Retail Group's investment in technology continues with the full implementation of a computer front-end system based on the latest technology improving efficiency and enhancing customer satisfaction. This additional and substantial investment in IT infrastructure, systems and communications has given the bank a distinct competitive edge.

The Retail Group continues to expand its delivery channel mechanisms to provide options, choices and flexibility for customers. The addition of four new branches in 2004 brings Gulf Bank's total to 33 full-service branches, in addition to 17 new off-site ATM's located in key areas with the aim of making Gulf Bank more accessible for its customers. Other advancements in 2004 include: improving e-banking channels; adding Western Union

Services; growing telebanking services; launching the Red program for university students; and enhancing the Gulf Rewards credit card incentive program.

Gulf Bank has long been known as 'the businessman's bank' and the Corporate Group pride themselves on the speed of their corporate loan decisions and maintain the second largest corporate loans portfolio in Kuwait. A key differentiator from the competition is the Bank's partnership approach to corporate banking. Gulf Bank looks at each client as a long-term business partner and supports its clients through good times and bad.

The Treasury Division generated record profitability for foreign exchange in 2004. Due primarily to increased customer business and increased participation in the interbank market, the results confirm Gulf Bank's position as the largest and most active market maker in the Kuwaiti Dinar Foreign Exchange market. Treasury systems also received further upgrades in 2004, enabling the Division to provide clients with efficient pricing and enhanced advisory services.

The International Division supports commercial trade, seeks high quality international credits and diversifies Gulf Bank's earnings by generating revenue from its activities outside Kuwait. International Banking has been selectively expanding its business in emerging markets in the Far East as well as the Middle East.

Gulf Bank continues to demonstrate market leadership in all areas of its business. Significant initiatives in 2004 included arranging two landmark 10-year Subordinated Debt financings for a total of US$150 million. The groundbreaking transactions support Gulf Bank's long term funding requirements in light of our expanding asset portfolio and increasing domestic market share, and further enhance Gulf Bank's strong capital adequacy position. Inspired by the success of these and other projects, Gulf Bank plans to proactively market its services to domestic clients requiring access to international markets as a means to continue profitability and growth.

Gulf Bank is one of the top rated banks in the region with an 'A' rating from Capital Intelligence, one of the top emerging market rating agencies in the world and strong ratings from the world's top international rating agencies, namely: 'A' (Fitch), 'A2' (Moody's) and 'BBB+' (Standard & Poor's). The positive ratings reflect the Bank's sound profitability, good asset quality, stable retail deposit funding and adequate capitalization.

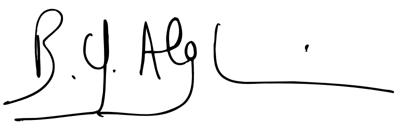
Chairman's Message continued...

Dr. Yousef A. Al-Awadi KBE
Chief General Manager
& Chief Executive Officer

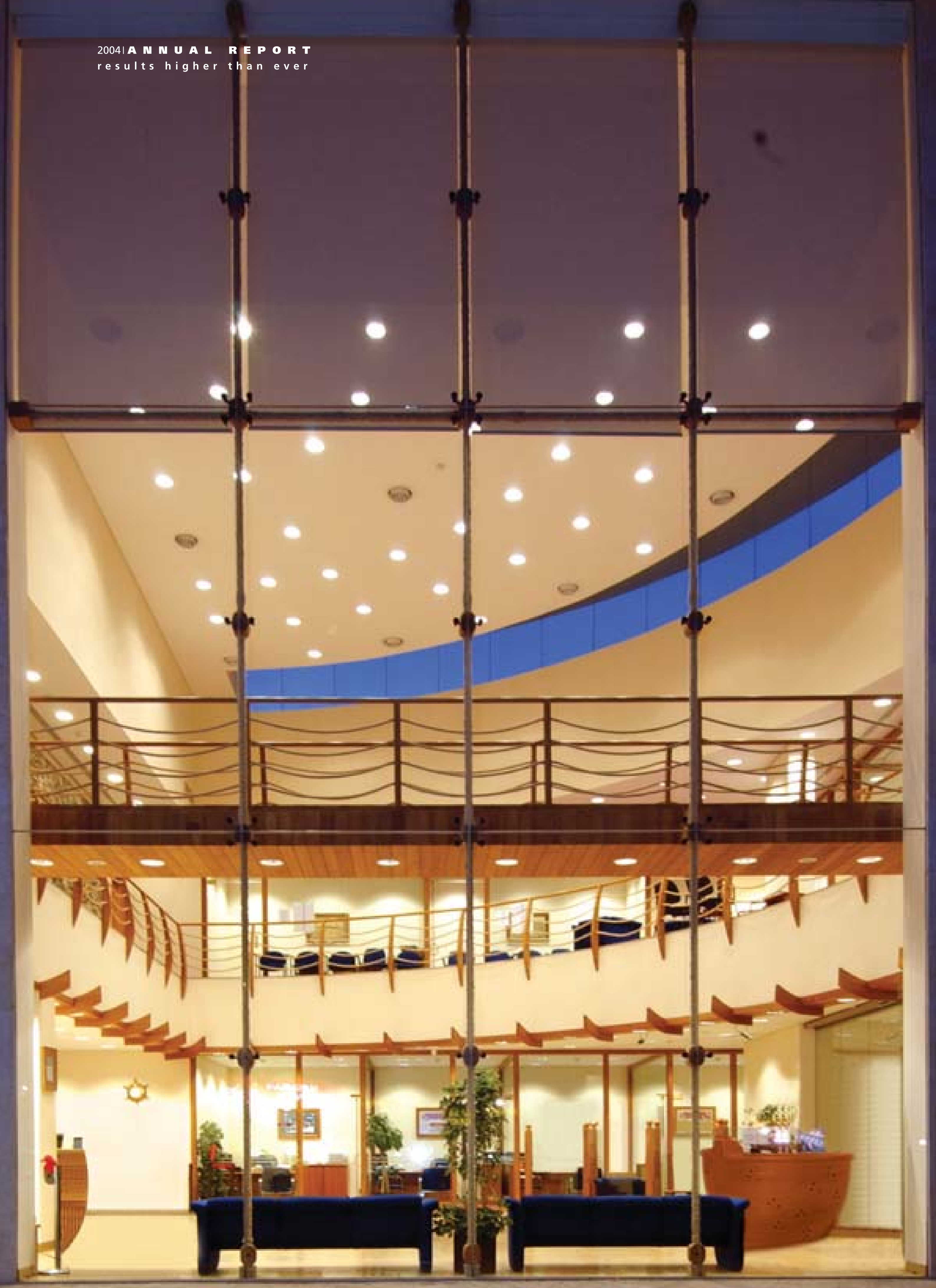
In the face of growing competition, Gulf Bank has continued to build on its current industry-leading position with a stronger and more diverse management team. The recent appointment of Dr. Yousef Al-Awadi, one of Kuwait's most prominent business professionals, as the Chief General Manager and Chief Executive Officer provides greater depth and experience for the management team.

Gulf Bank remains committed to continuing its record growth and profitability in 2005. With a strong, stable foundation in place, the Bank will continue to focus on delivering superior customer service and superior return on investment for its shareholders and investors. To this end, the Board of Directors is pleased to recommend a cash dividend of 70 fils for 2004, together with a 5% bonus share issue. This is substantially higher than last year's dividend payment of 44 fils and represents a total return of 11.6% for 2004 (based on the 2004 closing share price).

It is my pleasure, on behalf of Gulf Bank, to thank our loyal customers, staff and shareholders for their continued support and patronage. We look forward to many more years of mutual prosperity and success.



Bassam Yusuf Alghanim
Chairman and Managing Director



FINANCIAL REVIEW

SUMMARY OF FINANCIAL PERFORMANCE

(KD Millions)	2004	2003
Net interest income	67.7	55.0
Other operating income	(35.5)	(22.4)
Operating income	103.2	77.4
Operating expenses	(18.7)	(17.0)
Operating profit before provisions	84.5	60.4
Provisions	(7.3)	(10.2)
Operating profit	77.2	50.2
Directors' emoluments	(0.1)	(0.1)
KFAS/National Labour Support Tax	(2.5)	(1.6)
Net profit	**74.6**	**48.5**

Gulf Bank produced another record set of results in 2004, marking 5 years of uninterrupted profit growth since the Bank's change of ownership in late 1999. Operating and net profit, shareholder returns, operating efficiency and profitability ratios reached all time highs in 2004.

The record net profit of KD74.6 million (USD253.3 million) was KD26.1 million or 54% higher than 2003. Operating profit before provisions grew by KD24.1 million (40%) to KD84.5 million, reflecting strong core earnings growth in all business areas. The Bank met all of its key 2004 business plan targets and every business group had its best year ever.

Net interest income increased by KD12.7 million (23%) as a result of strong retail and corporate loan growth, improved corporate loan spreads and an improved balance sheet mix.

Other operating income grew by KD13.1 million (59%). Investment disposal income was up KD10.1 million and there was strong growth in fee income (up 15%) and foreign exchange earnings (up 44%).

Operating expenses increased by KD1.7 million (9.6%). Staff costs were up KD0.3 million (2.7%) and non-staff costs were up KD1.4 million (23.7%). The Bank's industry-beating cost:income ratio was further reduced to 18.1% because the cost growth was more than offset by the corresponding 33% growth in operating income. Gulf Bank's cost:income ratio has almost halved since 1999 as a result of substantial productivity improvements and the measures taken to enhance sales performance. Revenue growth has consistently outpaced the growth in operating expenses as the Bank has expanded its business and network over the last five years.

The provisions charge of KD7.3 million was KD2.9 million (28%) lower than 2003. Specific provisions were KD1.4 million higher at KD2.1 million, but general provisions were KD4.3 million lower at KD5.2 million. The general provisions arise from the Central Bank of Kuwait (CBK) conservative regulatory requirement to provide a 2% general provision against non-bank credit facilities (on and off-balance-sheet).

Summary of Financial Performance continued...

The record results delivered major improvements in the Bank's key profitability and shareholder return measures. Return on assets and return on equity reached all time highs of 3.13% and 28.4%, respectively. These returns are exceptionally high by international banking standards. Earnings per share similarly grew by 50%, from 60.8 fils to 91.3 fils.

NET INTEREST INCOME

	2004	2003
Net interest income *(KD Millions)*	**67.7**	55.0
Average interest-earning assets *(KD Millions)*	**2,337**	2.199
Net interest margin *(Per cent)*	**2.90 %**	2.50 %
Average KD Discount Rate *(Per cent)*	**3.70 %**	3.25 %

Net interest income increased by KD12.7 million (23%) in 2004, mainly in Retail Banking and Corporate Banking. Average retail lending grew by almost 50% as the Bank further enhanced its product range, opened more new branches and continued to increase its retail market share. Average corporate lending grew by almost 20% as the Bank successfully targeted specific customer segments while maintaining credit quality and improving lending margins.

Average interest-earning assets grew by KD138 million (6.3%) to KD2.34 billion. The overall net interest spread was 36 basis points higher, due to increased corporate loan spreads, substantial growth in higher yield retail lending and an improved funding mix. The net interest margin was 40 basis points higher, at 2.90%, due to the added benefit of higher interest rates on the Bank's net free funds. The KD Discount Rate rose steadily from June onwards (from 3.25% to 4.75%), as CBK followed the upward trend in US interest rates. The average rate was consequently 45 basis points, or 14 per cent, higher in 2004, at 3.70%.

OTHER OPERATING INCOME

(KD Millions)	2004	2003
Net fees and commissions	**17.5**	15.2
Foreign exchange and derivatives income	**4.8**	3.3
Dividend income	**1.6**	1.8
Other income	**0.2**	0.8
Income from disposal of investment securities	**11.4**	1.3
Total other operating income	**35.5**	22.4

Other operating income grew by KD13.1 million or 59% in 2004. Net fees and commissions increased by KD2.3 million (15%), mainly due to business volume growth in Corporate and Retail Banking. The growth in letters of credit and guarantee commissions and loan protection insurance income was particularly strong.

Other Operating Income continued...

Foreign exchange earnings were up KD1.5 million (44%), reflecting increased customer business volumes and increased proprietary trading income.

Dividend income fell by KD0.2 million to KD1.6 million. Other income was KD0.6 million lower, mainly because 2003 included non-recurring property disposal gains of KD0.5 million.

Income from the disposal of investment securities was KD10.1 million higher at KD11.4 million. The 2004 gains were almost entirely due to the disposal of fixed income securities (originally purchased in 2001 when interest rates were declining), and the disposal of the Bank's holding in another Kuwaiti financial institution. These were long-term investments that were sold in response to changes in market conditions. The Bank continues to apply rigorous investment performance criteria when considering equity investments, due to concerns over potential equity market volatility, and the main focus is to generate sustainable core earnings rather than seek windfall gains from investment securities.

OPERATING EXPENSES

(KD Millions)	**2004**	2003
Staff costs	**11.7**	11.4
Occupancy costs	**1.1**	1.1
Depreciation	**0.9**	1.0
Other expenses	**5.0**	3.5
Total operating expenses	**18.7**	17.0
Cost:income ratio *(Per cent)*	18.1 %	22.0 %
Period end headcount	809	732

Operating expenses increased by KD1.7 million (9.6%) in 2004. Staff costs grew by KD0.3 million (2.7%), mainly due to higher performance related incentive payments. Year-end headcount was up 77 (10.5%) reflecting headcount growth in the latter part of 2004 to support the growth in retail business and the expansion of the branch network.

Occupancy costs were slightly higher due to the opening of four new branches in 2004. Depreciation costs were KD0.1 million lower, since the depreciation costs of the Bank's recent investments in new branches and systems were offset by the run-off of fully depreciated assets.

Other expenses were KD1.5 million (42%) higher in 2004, mainly due to higher marketing costs and the costs of the administrative and support activities that were outsourced at the end of 2003. The sharp increase in marketing costs reflects the fact that marketing expenditure was minimal during the first half of 2003 (due to the war in Iraq), and there was substantial marketing and promotional activity throughout 2004 to support the retail customer acquisition programme.

Operating Expenses continued...

The cost:income ratio improved by 3.9 percentage points to 18.1%. Gulf Bank has maintained the lowest ratio in Kuwait for the last five years, despite significant investment during this period, and has achieved one of the best operating efficiency ratios of any bank in the world. This demonstrates the Bank's ability to grow its business and increase its market share so that revenue growth exceeds the costs of investing in branches, people, new products and systems.

PROVISIONS

(KD Millions)	**2004**	2003
Specific provisions	**2.1**	0.7
General provisions	**5.2**	9.5
Total provisions	**7.3**	10.2
Non-performing to total loans *(Per cent)*	**3.0** %	2.0 %
Specific provisions cover *(Per cent)*	**56.2** %	80.0 %
Total provisions cover *(Per cent)*	**144.7** %	200.3 %

The provisions charge of KD7.3 million was KD2.9 million (28%) lower than 2003. Specific provisions were KD1.4 million (203%) higher at KD2.1 million, reflecting the significant growth in personal and corporate lending over the last five years and the non-recurrence of the corporate loan recoveries that reduced the net charge in 2003. The general provisions charge of KD5.2 million was KD4.3 million (45%) lower than 2003 due to the slowdown in corporate loan growth in the latter part of 2004 as a result of the new customer loan/deposit ratio introduced by CBK.

Asset quality remains good, reflecting the Bank's prudent lending strategies and its strict and comprehensive credit policies and procedures. Non-performing loans (NPLs) increased by KD16.3 million (56%) to KD45.2 million at 31 December 2004, but this was mostly due to two large related corporate accounts. As a consequence, the proportion of NPLs to total loans increased from 2.0% to 3.0%. Specific provisions cover declined from 80.0% of NPLs in 2003 to 56.2% of NPLs at 31 December 2004, since the two accounts in question are fully collateralised and do not require specific provisions cover. Total provisions cover, including general provisions, remained very high at 144.7% (2003: 200.3%).

BALANCE SHEET ANALYSIS

Selected balance sheet data (KD Millions)	31 Dec 2004	31 Dec 2003
Loans and advances to banks	**116**	199
Loans and advances to customers	**1,338**	1,212
Government debt bonds	**-**	16
Deposits with banks and OFIs: CDs	**-**	295
Total assets	**2,286**	2,483
Due to banks: CDs	**-**	394
Medium term loans from banks	**154**	204
Floating rate notes	**59**	59
Subordinated loans	**44**	-
Customer deposits	**1,394**	1,228
Shareholders' funds	**264**	262

Key ratios (Per cent)		
Return on average assets	**3.13 %**	2.16 %
Return on average equity	**28.4 %**	20.0 %
Capital adequacy ratio	**17.5 %**	15.5 %

Total assets decreased by KD197 million or 8% to KD2.29 billion (USD7.76 billion) at 31 December 2004. The significant growth in customer loans and deposits was offset by the elimination of back-to-back certificates of deposit ('CDs') and medium term loans with other Kuwaiti banks following CBK regulatory changes requiring the netting off of interbank placements and acceptances for the purposes of the calculation of the consumer loan ratio. The consequent reduction in total assets led to a significant improvement in the balance sheet mix. Almost 64% of the balance sheet was deployed in loans and advances at 31 December 2004, compared with approximately 57% at 31 December 2003.

Loans and advances to banks declined by KD83 million (41%) to KD116 million. The reduction reflected the early pre-payment of a back-to-back medium term loan to another Kuwaiti bank (KD50 million) and the run-off of US dollar lending to international banks.

Loans and advances to customers increased by KD126 million (10%), mainly reflecting the strong, but prudent and strictly controlled growth in personal lending (up KD110 million or 33%). The year-on-year growth in corporate loans and advances was fairly modest due to a significant net reduction in lending in the fourth quarter as a result of the new loan/deposit ratio. As a consequence, personal lending increased from 26.7% to 32.1% of gross loans and advances to customers.

Government debt bonds ('GDBs') were reduced by KD16 million (100%) as Gulf Bank became the first Kuwaiti commercial bank to completely eliminate GDBs from its balance sheet. GDBs constituted KD248 million (13.9%) of Gulf Bank's balance sheet at

Balance Sheet Analysis continued...

the end of 1999 when the Bank commenced its innovative refinancing strategy to give loans to selected customers to enable them to redeem their outstanding GDBs from the Kuwaiti Government. This groundbreaking scheme has enabled the Bank's customers to rebuild and develop their businesses. It has also boosted the Bank's earnings and shareholder returns by progressively replacing the low yielding GDBs with higher yielding customer loans.

Deposits with banks and other financial institutions ('OFIs') fell by KD300 million (100%), mainly due to the run-off of CDs (KD295 million). Due to banks similarly declined by KD450 million (81%), mainly due to the run-off of CDs (KD394 million).

Medium term loans from banks (MTL) were reduced by KD50 million to KD154 million due to the early pre-payment of a back-to-back MTL with another Kuwaiti bank. The remaining MTL funding comprises 3 and 5 year KD and US dollar loans from other Kuwaiti banks and provides cost-efficient, long term stable funding for the growth in consumer lending.

Further long term funding was provided by the 5 year USD200 million floating rate note (FRN) Eurobond (due October 2008) issued by Gulf Bank in October 2003. Long term funding was further increased in 2004 by subordinated loans. Two 10 year loans were obtained from financial institutions outside of Kuwait: USD50 million due June 2014 and USD100 million due December 2014. Both loans qualify as Tier 2 subordinated loan capital.

Customer deposits increased by KD166 million (13%) to KD1,394 million. Lower cost deposits were KD48 million (10%) higher. Current account balances grew by 21% and savings account balances were broadly maintained (only 3% lower), despite the significant increase in interest rates during 2004. Time deposits grew by KD118 million (15%), mainly in Treasury and International Banking, as the Bank successfully increased customer deposits to help meet the new CBK customer loan/deposit ratio.

Shareholders' funds increased by KD2.7 million (10.5%) from KD261.6 million to KD264.3 million. The substantial reduction caused by the purchase of treasury shares in 2004 (net effect of KD18 million) was offset by the proposed bonus share issue (KD4.1 million) and the growth in retained earnings (up KD6.5 million) and statutory reserves (up KD7.7 million). In addition, other reserves increased by KD1 million and there was a net increase in the fair valuation reserve of KD1.4 million. The Bank had unrealised gains on its 'available for sale' financial assets of KD23.8 million at 31 December 2004 (2003: KD22.4 million).

The return on average assets rose by 97 basis points (45 per cent), from 2.16% in 2003 to 3.13% in 2004. The dramatic improvement reflects the sharp increase in profitability and the net reduction in balance sheet size. Returns had been diluted in 2003 because the use of back-to-back interbank funding had inflated the balance sheets of the Kuwaiti banks.

The return on average equity increased by 840 basis points (42 per cent), from 20.0% to 28.4%. The dramatic improvement reflects the sharp growth in profitability in 2004 and the fairly modest net increase in shareholders' funds.

The capital adequacy ratio improved from 15.5% at end 2003 to 17.5% at 31 December 2004. Period-end risk-weighted assets grew by KD86 million (5.5%) as a result of the growth in retail lending and off-balance-sheet credit facilities. Total capital resources

Balance Sheet Analysis continued...

increased by KD46 million (19%). Tier 2 capital increased by KD45 million, mainly subordinated loan capital (KD44.2 million). Tier 1 capital increased by only KD1 million, since the capital increase (KD19 million) arising from the proposed bonus share issue (KD4.1 million) and the growth in reserves (KD8.4 million) and retained earnings (KD6.5 million) was mostly offset by the capital reduction (KD18 million) resulting from the increased holding of treasury shares. The capital adequacy ratio is well above the CBK minimum ratio of 12.0% and the Bank is strongly capitalised to support the continued expansion of its business activities in 2005.

BANK RATINGS

Long-term foreign currency ratings	**2004**	2003
Fitch Ratings	**A-**	A-
Moody's Investors Service	**A2**	A2
Capital Intelligence	**A**	A-
Standard & Poor's	**BBB+**	BBB+

Gulf Bank received further rating upgrades during 2004, reinforcing its position as the second highest rated bank in Kuwait and one of the highest rated banks in the Middle East. Capital Intelligence upgraded the Bank's long-term foreign currency and financial strength ratings from 'A-' to 'A'. Moody's increased the 'outlook' on the Gulf Bank financial strength rating from 'stable' to 'positive'. The Bank's other ratings were reaffirmed during 2004, namely: 'A-' (Fitch Ratings) and 'BBB+' (Standard & Poor's).

The strong ratings reflect the financial strength, good asset quality, strong profit growth and well focused and effective business strategy of Gulf Bank. The Bank continues to increase its market share and build on its position as Kuwait's second largest commercial bank, despite the increasing competition in the market.

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying balance sheet of Gulf Bank K.S.C as of 31 December 2004 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion proper books of accounts have been kept by the Bank and the financial statements, together with the contents of the report of the Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Bank's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of the Commercial Companies Law of 1960, as amended , or of the Articles of Association have occurred during the year ended 31 December 2004 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our examination, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the year ended 31 December 2004.

09 January 2005

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INCOME STATEMENT Year ended 31 December 2004

	Note	2004 KD 000's	2003 KD 000's
Interest income	3	106,935	87,109
Interest expense	4	39,285	32,162
Net Interest Income		67,650	54,947
Dividend income		1,623	1,805
Net fees and commissions		17,476	15,205
Net gains from dealing in foreign currencies and derivatives		4,779	3,312
Income from disposal of investment securities		11,440	1,286
Other income	5	257	828
Operating Income		103,225	77,383
Staff expenses		11,730	11,425
Occupancy costs		1,114	1,062
Depreciation		873	1,053
Other expenses		4,951	3,494
Operating Expenses		18,668	17,034
Provisions for impairment - specific		2,145	708
- general		5,170	9,460
		7,315	10,168
		25,983	27,202
Operating Profit		77,242	50,181
Contribution to Kuwait Foundation for the Advancement of Sciences		772	502
Directors' emoluments		108	108
National labour support tax		1,716	1,114
Net Profit for the Year		74,646	48,457
Earnings Per Share (Fils)	6	91.286	60.834

The attached notes 1 to 26 form part of these financial statements

BALANCE SHEET As at 31 December 2004

	Note	2004 KD 000's	2003 KD 000's
Assets			
Cash and short term funds	7	**234,612**	196,272
Treasury bills and bonds	8	**484,359**	452,084
Deposits with banks and other financial institutions	9	**-**	300,000
Loans and advances to banks	10	**116,305**	198,690
Loans and advances to customers	10	**1,338,286**	1,211,842
Investment securities	11	**87,587**	84,642
Government debt bonds	12	**-**	15,780
Other assets	13	**12,836**	12,849
Premises and equipment		**12,179**	11,363
Total Assets		**2,286,164**	2,483,522
Liabilities & Equity			
Liabilities			
Due to banks	14	**108,208**	558,623
Medium term loans from banks	14	**154,205**	204,205
Deposits from financial institutions	14	**167,967**	102,947
Customer deposits	15	**1,393,738**	1,228,169
Floating rate notes	16	**58,940**	58,940
Subordinated loans	17	**44,205**	-
Other liabilities	18	**38,465**	33,141
		1,965,728	2,186,025
Shareholders' Equity			
Share capital	19	**82,086**	82,086
Proposed bonus shares	21	**4,104**	-
Statutory reserve	20	**56,092**	48,368
General reserve	20	**2,356**	2,356
Share premium	20	**46,044**	46,044
Property revaluation reserve	20	**7,496**	7,115
Treasury share reserve	20	**9,393**	8,749
Fair valuation reserve		**23,844**	22,428
Retained earnings		**53,842**	47,371
		285,257	264,517
Treasury shares		**(20,937)**	(2,943)
		264,320	261,574
Proposed dividend	21	**56,116**	35,923
		320,436	297,497
Total Liabilities and Shareholders' Equity		**2,286,164**	2,483,522

These financial statements have been approved for issue by the Board of Directors on 9th January 2005 and signed on its behalf by:

Salah Khaled Al-Fulaij
(Deputy Chairman)

Dr. Yousef A. Al-Awadi
(Chief General Manager & Chief Executive Officer)

David Pace
(Corporate Controller)

The attached notes 1 to 26 form part of these financial statements

CASH FLOW STATEMENT Year ended 31 December 2004

Operating Activities	2004 KD 000's	2003 KD 000's
Net profit for the year	74,646	48,457
Adjustments:		
Dividend income	(1,623)	(1,805)
Profit on sale of investment securities	(11,440)	(1,286)
Depreciation	873	1,053
Profit on disposal of premises and equipment	-	(213)
Provisions for impairment	7,315	10,168
Operating profit before changes in operating assets and liabilities	**69,771**	56,374
(Increase) decrease in operating assets:		
Treasury bills and bonds	(32,275)	(15,898)
Deposits with banks and other financial institutions	300,000	(290,000)
Loans and advances to banks	82,385	(72,522)
Loans and advances to customers	(131,803)	(286,237)
Government Debt bonds	15,780	15,841
Other Assets	13	(1,368)
Increase (decrease) in operating liabilities:		
Due to banks	(450,415)	313,005
Medium term loans from banks	(50,000)	49,290
Deposits from financial institutions	65,020	(56,248)
Customer deposits	165,569	77,837
Floating rate notes	-	58,940
Subordinated loans	44,205	-
Other liabilities	3,438	37
Net cash From (used in) Operating Activities	**81,688**	(150,949)
Investing Activities		
Purchase of investment securities	(23,216)	(5,894)
Sale of investment securities	32,826	37,654
Purchase of premises and equipment	(1,308)	(1,743)
Sale of premises and equipment	-	1,145
Dividends Received	1,623	1,805
Net Cash from Investing Activities	**9,925**	32,967
Financing Activities		
Dividends paid	(35,923)	(33,584)
Purchase of treasury shares	(20,921)	(4,920)
Sale of treasury shares	3,571	19,273
Net Cash used in Financing Activities	**(53,273)**	(19,231)
Net Increase (Decrease) in Cash and Short Term Funds	**38,340**	(137,213)
Cash and Short Term Funds at 1 January	**196,272**	333,485
Cash and Short Term Funds at 31 December	**234,612**	196,272

The attached notes 1 to 26 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	Share Capital KD 000's	Proposed Bonus Shares KD 000's	RESERVES Statutory Reserve KD 000's	General Reserve KD 000's	Share Premium KD 000's	Revaluation Reserve KD 000's	Treasury Share Reserve KD 000's	Fair Valuation Reserve KD 000's	Retained Earnings KD 000's	Subtotal Reserves KD 000's	Treasury Shares KD 000's	Proposed Dividend KD 000's	Total KD 000's
At 1 January 2003	**82,086**	**-**	**43,350**	**2,356**	**46,044**	**5,885**	**4,775**	**10,600**	**40,042**	**153,052**	**(13,322)**	**33,584**	**255,400**
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(33,584)	(33,584)
Effect of changes in fair values of "available for sale" financial assets	-	-	-	-	-	-	-	11,828	-	11,828	-	-	11,828
Net realised gains during year	-	-	-	-	-	-	-	-	(643)	(643)	-	-	(643)
Release on disposal of proprties	-	-	-	-	-	(456)	-	-	456	-	-	-	-
Surplus on revaluation of properties	-	-	-	-	-	1,686	-	-	-	1,686	-	-	1,686
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(4,920)	-	(4,920)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	15,299	-	15,299
Profit on sale of treasury shares	-	-	-	-	-	-	3,974	-	-	3,974	-	-	3,974
Net profit for the year	-	-	-	-	-	-	-	-	48,457	48,457	-	-	48,457
Transfers from profit	-	-	5,018	-	-	-	-	-	(5,018)	-	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-	(35,923)	(35,923)	-	35,923	-
At 31 December 2003	**82,086**	**-**	**48,368**	**2,356**	**46,044**	**7,115**	**8,749**	**22,428**	**47,371**	**182,431**	**(2,943)**	**35,923**	**297,497**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(35,923)**	**(35,923)**
Effect of changes in fair values of "available for sale" financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,416**	**-**	**1,416**	**-**	**-**	**1,416**
Net realised gains during year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(231)**	**(231)**	**-**	**-**	**(231)**
Surplus on revaluation of properties	**-**	**-**	**-**	**-**	**-**	**381**	**-**	**-**	**-**	**381**	**-**	**-**	**381**
Purchase of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(20,921)**	**-**	**(20,921)**
Sale of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,927**	**-**	**2,927**
Profit on sale of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**644**	**-**	**-**	**644**	**-**	**-**	**644**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**74,646**	**74,646**	**-**	**-**	**74,646**
Transfers from profit	**-**	**-**	**7,724**	**-**	**-**	**-**	**-**	**-**	**(7,724)**	**-**	**-**	**-**	**-**
Proposed bonus shares	**-**	**4,104**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,104)**	**(4,104)**	**-**	**-**	**-**
Proposed dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(56,116)**	**(56,116)**	**-**	**56,116**	**-**
At 31 December 2004	**82,086**	**4,104**	**56,092**	**2,356**	**46,044**	**7,496**	**9,393**	**23,844**	**53,842**	**199,067**	**(20,937)**	**56,116**	**320,436**

The attached notes 1 to 26 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C. is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. Its registered office is at Mubarak Al Kabir Street, PO Box 3200, 13032 Safat, Kuwait. The number of employees as of 31 December 2004 was 809 (2003: 732).
During the year, the Bank incorporated a wholly owned offshore banking subsidiary in the Kingdom of Bahrain with an authorised capital of USD50 million. No activities were undertaken by the subsidiary during the year.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

These financial statements are prepared in accordance with the Standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements are prepared under the historical cost basis of measurement as modified by the revaluation of financial assets held for trading and available for sale, all derivative contracts and land and buildings.
The accounting policies used are consistent with those used in the previous year.
The financial statements have been presented in Kuwaiti Dinars rounded off to the nearest thousand.

b. Financial instruments

Classification, recognition/de-recognition and measurement of financial instruments

Classification

In accordance with IAS 39 the Bank classifies its financial assets as "held for trading", "originated financial assets" and "available for sale" and its financial liabilities as "non-trading financial liabilities''.
"Held for trading" are those financial assets which are acquired principally for the purpose of generating a profit from short term fluctuations in price. This includes derivative financial instruments.
Financial assets that are created by the Bank by providing money directly to a borrower are classified as "originated financial assets".
Financial assets which are not classified as above are classified as "available for sale", and are principally those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices.
Financial liabilities, which are not held for trading, are classified as "non-trading financial liabilities".
Management determines the classification of these financial instruments at the time of acquisition.

Recognition/de-recognition

A financial asset or a financial liability is recognised when the Bank becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised when the Bank loses control of the contractual rights that comprise the financial asset and a financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

All regular way purchases and sales of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in income. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Derivatives with positive market values (unrealised gains) are recognised as other assets and derivatives with negative market values (unrealised losses) are recognised as other liabilities in the balance sheet.

Measurement

All financial instruments are initially recognised at cost (which includes transaction costs).

On subsequent re-measurement, financial assets classified as "held for trading" are carried at fair value with resultant unrealised gains or losses arising from changes in fair value included in the income statement. "Originated financial assets" are carried at amortised cost using the effective yield method, less any provision for impairment. Those classified as "available for sale" are subsequently measured and carried at fair values. Unrealised gains and losses arising from changes in fair value of those classified as "available for sale" are taken to fair valuation reserve in equity. "Non-trading financial liabilities" are carried at amortised cost using the effective interest method.

When the "available for sale" asset is disposed of, or impaired, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

Fair values

Fair values of quoted instruments are based on quoted closing bid prices or using the current market rate of interest for that instrument. Fair values for unquoted instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, or group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future cash flows discounted at original interest rates, is recognised in the income statement.

The provision for impairment of loans and advances also covers losses where there is objective evidence that probable losses are present in components of the loans and advances portfolio at the balance sheet date. These have been estimated based on the historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic environment in which the borrowers operate.

Loans and advances are written off when there is no realistic prospect of recovery.

c. Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Treasury shares
The cost of the Bank's own shares purchased, including directly attributable costs, is recognised as a change in equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and in accordance with the instructions of Central Bank of Kuwait, these amounts are not available for distribution. These shares are not entitled to any cash dividends.

e. Revenue recognition
Interest income and fees which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method, unless collectibility is in doubt. The recognition of interest income is suspended when loans become impaired, such as when overdue by more than 90 days.
Other fees receivable are recognised as the services are provided. Dividend income is recognised when the right to receive payment is established.

f. Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

g. Foreign currencies
Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the year end are translated into Kuwaiti Dinars at rates of exchange ruling at the balance sheet date. Translation gains and losses on non-monetary items such as equities classified as available for sale financial assets are included in the fair valuation reserve in equity, unless part of an effective hedging strategy. Foreign exchange contracts outstanding at the year end are revalued at the forward rates ruling at the balance sheet date. Any resultant gains or losses are taken to the income statement.

3. Interest income

	2004 KD 000's	2003 KD 000's
Government debt bonds, treasury bills and bonds and other investments	**13,170**	14,818
Placements with banks	**8,529**	9,092
Loans and advances to banks and customers	**85,236**	63,199
	106,935	87,109

4. INTEREST EXPENSE

	2004 KD 000's	2003 KD 000's
Call accounts	**1,882**	1,329
Savings accounts	**1,099**	1,160
Time deposits	**22,194**	18,880
Bank borrowings	**14,110**	10,793
	39,285	32,162

5. OTHER INCOME

	2004 KD 000's	2003 KD 000's
Gains on disposal of premises and equipment	-	213
Gain on sale of property acquired against debts	-	250
Customer portfolio management fee	89	107
Sundry income	168	258
	257	828

6. EARNINGS PER SHARE

Earnings per share is based on the net profit of KD74,646,000 (2003: KD48,457,000) and the weighted average number of ordinary shares of KD0.100, of 817,712,763 (2003: 796,549,990), after adjusting for treasury shares.

7. CASH AND SHORT TERM FUNDS

	2004 KD 000's	2003 KD 000's
Balances with the Central Bank of Kuwait	31,634	137,100
Cash on hand and in current accounts with other banks	26,542	20,473
Money at call and short notice	19,450	3,704
Deposits with banks and other financial institutions maturing within one month	156,986	995
Certificates of deposit maturing within one month	-	34,000
	234,612	196,272

The Bank classifies cash and short term funds as "originated financial assets".

8. TREASURY BILLS AND BONDS

These financial instruments are issued by the Central Bank of Kuwait on behalf of the Ministry of Finance. They mature within a period not exceeding one year.

	2004 KD 000's	2003 KD 000's
Treasury bills	194,894	163,122
Treasury bonds	289,465	288,962
	484,359	452,084

The Bank classifies treasury bills and bonds as "originated financial assets".

9. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2004 KD 000's	2003 KD 000's
Time deposits	-	5,000
Certificates of deposit	-	295,000
	-	300,000

The Bank classifies deposits with banks and other financial institutions as "originated financial assets".

10. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent monies paid to banks and customers and the Bank classifies them as "originated financial assets". The Bank's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below.

At 31 December 2004:

Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	**446,820**	-	-	-	-	**446,820**
Financial	**80,600**	**3,012**	**31,850**	-	**13,231**	**128,693**
Trade and commerce	**220,581**	**3,772**	-	-	-	**224,353**
Crude oil and gas	**8,513**	**421**	-	-	-	**8,934**
Construction	**157,786**	**2,514**	-	-	-	**160,300**
Government	-	**6,955**	-	-	**1,415**	**8,370**
Others	**125,170**	**2,920**	-	-	-	**128,090**
Manufacturing	**16,736**	**14,398**	-	-	-	**31,134**
Real Estate	**256,958**	-	-	-	-	**256,958**
	1,313,164	**33,992**	**31,850**	-	**14,646**	**1,393,652**
Less: Provision for impairment						**(55,366)**
						1,338,286
Loans and advances to banks	**14,918**	**34,358**	**46,571**	**17,977**	**2,481**	**116,305**

At 31 December 2003:

Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	336,944	-	-	-	-	336,944
Financial	117,650	17,897	12,231	1,213	14,265	163,256
Trade and commerce	227,426	4,980	-	-	-	232,406
Crude oil and gas	11,113	421	-	-	-	11,534
Construction	141,063	2,514	7	-	-	143,584
Government	-	5,640	-	-	1,537	7,177
Others	70,887	4,432	-	747	-	76,066
Manufacturing	21,376	8,916	-	-	-	30,292
Real Estate	260,146	-	-	-	-	260,146
	1,186,605	44,800	12,238	1,960	15,802	1,261,405
Less: Provision for impairment						(49,563)
						1,211,842
Loans and advances to banks	70,689	33,958	27,367	44,671	22,281	198,966
Less: Provision for impairment						(276)
						198,690

10. LOANS AND ADVANCES TO BANKS AND CUSTOMERS (Continued)

Movement in provisions for impairment

	2004 KD 000's			2003 KD 000's		
	Specific	General	Total	Specific	General	Total
At 1 January	**23,162**	**26,677**	**49,839**	22,157	18,576	40,733
Exchange adjustments	**118**	**-**	**118**	(2)	-	(2)
Recoveries	**116**	**-**	**116**	433	-	433
Amounts written off	**(36)**	**-**	**(36)**	(9)	-	(9)
Amount to be ceded to Central Bank of Kuwait	**(30)**	**-**	**(30)**	(28)	-	(28)
Income statement	**2,075**	**3,354**	**5,429**	611	8,198	8,809
Transfer to provision for "assets sold"	**-**	**(70)**	**(70)**	-	(97)	(97)
At 31 December	**25,405**	**29,961**	**55,366**	23,162	26,677	49,839

The policy of the Bank for the calculation of the impairment provisions for loans and advances complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait. The Central Bank of Kuwait requires a general provision of 2% on all credit facilities not subject to specific provision. The analysis of specific and general provisions set out above is based on the requirements of the Central Bank of Kuwait. The current year provision for cash facilities is KD55,366,000 (2003: KD49,839,000). In addition to the provision for cash facilities, the available provision for non-cash facilities of KD10,044,000 (2003: KD8,158,000) is included in other liabilities.

As at 31 December 2004, non-performing loans and advances amounted to KD45,201,000 (2003: KD28,948,000) split between facilities granted pre-invasion and post-liberation as follows:

	2004		2003	
	Loans & Advances KD 000's	**Provisions KD 000's**	Loans & Advances KD 000's	Provisions KD 000's
Pre-invasion	**13,207**	**13,207**	13,237	13,237
Post-liberation	**31,994**	**12,198**	15,711	9,925
Total	**45,201**	**25,405**	28,948	23,162

In accordance with Decree 32/1992, when the pre-invasion provisions are no longer required they must be repaid to the Central Bank of Kuwait.

11. INVESTMENT SECURITIES

	2004 KD 000's	2003 KD 000's
Debt securities		
Quoted	**16,256**	39,707
Unquoted	**239**	-
	16,495	39,707
Equity securities		
Quoted	**32,363**	24,492
Unquoted	**38,729**	20,443
	71,092	44,935
Total	**87,587**	84,642

The Bank classifies investment securities as "available for sale" financial assets.

During the year, the Bank recognised KD1,416,000 (2003: KD11,828,000) in equity as the net gain arising from changes in fair value of investment securities and re-cycled a profit of KD231,000 (2003: KD643,000) to the income statement arising from the disposal of "available for sale" investment securities.

12. GOVERNMENT DEBT BONDS

The Bank classifies government debt bonds as "originated financial assets".
The Central Bank of Kuwait purchased resident Kuwaiti and GCC customers' debts existing at 1 August 1990, in addition to related interest up to 31 December 1991, on behalf of the Government of Kuwait in accordance with Decree 32/1992 and Law 41/1993, as amended by Law 80/1995, in respect of the financial and banking sector. Pursuant to the provisions of Law 41/1993, some amendments may be made to customers' debt balances, which are being reviewed by the Central Bank of Kuwait. The purchase value of these debts was determined in accordance with the Decrees and was settled by the issue of bonds, with a value date of 31 December 1991. The bonds mature over a maximum period of twenty years from the value date. The Central Bank of Kuwait has redeemed KD15,780,000 during 2004 (2003: KD15,841,000). Interest on the bonds is at a rate fixed semi-annually by the Central Bank of Kuwait and is payable semi-annually in arrears; the average rate for 2004 was 1.82% (2003: 1.89%).
The Bank is required to manage the purchased debts without remuneration in conformity with the regulations as promulgated by Decree 32/1992 in this respect.

13. OTHER ASSETS

	2004 KD 000's	2003 KD 000's
Accrued interest receivable	**10,323**	9,661
Sundry debtors	**2,513**	3,188
	12,836	12,849

The Bank classifies other assets as "originated financial assets".

14. DUE TO BANKS, MEDIUM TERM LOANS FROM BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2004 KD 000's	2003 KD 000's
Due to banks		
Current accounts and demand deposits	**5,532**	5,733
Certificates of deposit	**-**	393,500
Time deposits	**102,676**	159,390
	108,208	558,623
Medium term loans from banks	**154,205**	204,205
Deposits from financial institutions		
Current accounts and demand deposits	**16,639**	17,333
Time deposits	**151,328**	85,614
	167,967	102,947

Medium term loans from banks comprise three facilities entered into with two other Kuwaiti banks: US$150 million (equivalent KD44,205,000) medium term loan due February 2005, KD60 million medium term loan due January 2007 and KD50 million medium term loan due September 2005.

The Bank classifies due to banks, medium term loans from banks and deposits from financial institutions as "non-trading financial liabilities".

15. CUSTOMER DEPOSITS

	2004 KD 000's	2003 KD 000's
Current accounts	**316,989**	261,633
Savings accounts	**200,777**	207,834
Certificates of deposit	**-**	88
Time deposits	**875,972**	758,614
	1,393,738	1,228,169

The Bank classifies customer deposits as "non-trading financial liabilities".

16. FLOATING RATE NOTES

On 22 October 2003, the Bank issued five year floating rate notes (due October 2008), with a principal amount of US$200 million (equivalent KD58,940,000) at an issue price of 100%. The notes bear interest at the rate of 0.65% per annum above the London interbank offered rate (LIBOR) for three month US dollar deposits, payable quarterly in arrear. The notes are in bearer form in the denomination of US$100,000 each. They are listed on the Luxembourg Stock Exchange and are redeemable at par on or before 22 October 2008. The fair value of the floating rate notes as at 31 December 2004 is US$200,900,000 (equivalent KD59,205,000).

The Bank classifies floating rate notes as "non-trading financial liabilities".

17. SUBORDINATED LOANS

As at 31 December 2004, Gulf Bank had subordinated borrowings of USD150 million (equivalent KD44,205,000). The borrowings comprise two 10 year subordinated loans: USD50 million due June 2014 and USD100 million due December 2014. The borrowings were obtained from financial institutions outside of Kuwait and qualify as Tier 2 subordinated loan capital. The loans are repayable at maturity, with an option for early pre-payment, and interest is variable and related to interbank offered rates.
The Bank classifies subordinated loans as " non-trading financial liabilities".

18. OTHER LIABILITIES

	2004 KD 000's	2003 KD 000's
Interest payable	**11,144**	10,764
Deferred income	**4,297**	3,750
Other	**6,602**	5,633
Provisions for non-cash facilities	**10,044**	8,158
Provisions to be ceded to the Central Bank of Kuwait	**30**	28
Provisions for assets sold	**702**	632
Contribution to Kuwait Foundation for the Advancement of Sciences	**772**	502
Staff related provisions	**3,158**	2,560
National Labour Support Tax	**1,716**	1,114
	38,465	33,141

The Bank classifies other liabilities as "non-trading financial liabilities".

19. SHARE CAPITAL

	2004 KD 000's	2003 KD 000's
Authorised, issued and fully paid ordinary shares	**82,086**	82,086
	82,086	82,086

The number of authorised, issued and fully paid ordinary shares of KD0.100 each as at 31 December 2004 is 820,858,550 (2003: 820,858,550).As at 31 December 2004 the Bank held 19,201,736 (2003: 4,424,236) treasury shares, equivalent to 2.34% (2003: 0.54%) of the total share capital at that date.
The market value of the treasury shares at 31 December 2004 is KD 20,353,840 (2003: KD3,849,085).

20. RESERVES

In accordance with the Law of Commercial Companies and the Bank's Articles of Association, 10% of the Bank's net profit for the year is transferred to statutory reserve. Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and useable with approval of the Annual General Meeting. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.
The general reserve represents the surplus general provision on credit facilities arising on implementation of Central Bank of Kuwait instructions issued on 18 December 1996 as well as additional instructions issued on 1 June 1999, and dividends distributed on treasury shares up until the end of 1997.
The property revaluation reserve represents the surplus of market value over carrying value of freehold land and buildings owned by the Bank. The balance in this reserve is taken directly to retained earnings when the underlying assets are disposed of. The balances in the share premium account and treasury share reserve cannot be distributed.

21. PROPOSED DIVIDEND

At 31 December 2004, the following dividend has been proposed and will be submitted for formal approval at the Annual General Meeting: cash dividend of KD0.070 per share (totalling KD56,116,000) payable to the shareholders registered in the Bank's records as of the date of the Annual General Meeting; and bonus shares of 5% on the outstanding shares as at 31 December 2004.

A cash dividend of KD0.044 per share (totalling KD35,923,000) proposed as of 31 December 2003, was approved at the 2003 Annual General Meeting and was paid in 2004 following that approval.

22. RELATED PARTY TRANSACTIONS

Certain related parties (directors and officers of the Bank, their families and companies of which they are principal owners) were customers of the Bank in the ordinary course of business. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than a normal amount of risk.

The year end balances included in the balance sheet are as follows:

	Description	No of Board or Executive Management Members	No of Related Parties	Value KD 000's
2004	**Board Members**			
	Loans	**5**	**1**	**5,221**
	Commitments & Contingent Liabilities	**-**	**2**	**86**
	Deposits	**6**	**1**	**90**
	Executive Management			
	Loans	**8**	**-**	**322**
	Deposits	**4**	**-**	**16**
2003	Board Members			
	Loans	4	1	5,161
	Commitments & Contingent Liabilities	-	2	175
	Deposits	4	1	49
	Executive Management			
	Loans	7	-	314
	Deposits	2	-	7

23. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

As a commercial bank, the Bank's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. It also seeks to increase these margins by consolidating short term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

23. FINANCIAL INSTRUMENTS (Continued)

Risk management

The use of financial instruments also brings with it the associated inherent risks. The Bank recognises the relationship between returns and risks associated with the use of financial instruments and the management of risk forms an integral part of the Bank's strategic objectives.

The strategy of the Bank is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Bank's major risk-based lines of business. The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to large asset valuation volatility and earnings volatility.

The following sections describe the several risks inherent in the banking process, their nature and how they are managed.

A. CREDITRISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business. It also obtains security when appropriate.

Concentration of assets, liabilities and off-balance-sheet items

a. Credit risk concentration

The credit risk concentration within loans and advances, which form the significant portion of assets subject to credit risk, is given in Note 14.

23. FINANCIAL INSTRUMENTS (Continued)

b. Geographical concentration of assets, liabilities and off-balance-sheet items

At 31 December 2004:

Assets:	**Kuwait KD 000's**	**Other Middle East KD 000's**	**Western Europe KD 000's**	**U.S.A and Canada KD 000's**	**Asia Pacific KD 000's**	**Rest of World KD 000's**	**Total KD 000's**
Cash and short term funds	**200,932**	**22,730**	**4,265**	**4,130**	**2,500**	**55**	**234,612**
Treasury bills and bonds	**484,359**	**-**	**-**	**-**	**-**	**-**	**484,359**
Loans and advances to banks	**14,918**	**34,358**	**46,571**	**-**	**17,977**	**2,481**	**116,305**
Loans and advances to customers	**1,269,682**	**23,546**	**31,827**	**-**	**-**	**13,231**	**1,338,286**
Investment securities	**22,836**	**36,198**	**7,980**	**3,683**	**-**	**16,890**	**87,587**
Other assets	**12,836**	**-**	**-**	**-**	**-**	**-**	**12,836**
Premises and equipment	**12,179**	**-**	**-**	**-**	**-**	**-**	**12,179**
	2,017,742	**116,832**	**90,643**	**7,813**	**20,477**	**32,657**	**2,286,164**
Liabilities and Shareholders' equity:							
Due to banks	**23,609**	**40,193**	**35,004**	**357**	**8,988**	**57**	**108,208**
Medium term loans from banks	**154,205**	**-**	**-**	**-**	**-**	**-**	**154,205**
Deposits from financial institutions	**167,967**	**-**	**-**	**-**	**-**	**-**	**167,967**
Customer deposits	**1,305,175**	**74,287**	**13,036**	**1,014**	**226**	**-**	**1,393,738**
Floating rate notes	**-**	**-**	**58,940**	**-**	**-**	**-**	**58,940**
Subordinated loans	**-**	**44,205**	**-**	**-**	**-**	**-**	**44,205**
Other liabilities	**38,465**	**-**	**-**	**-**	**-**	**-**	**38,465**
Shareholders' equity	**320,436**	**-**	**-**	**-**	**-**	**-**	**320,436**
	2,009,857	**158,685**	**106,980**	**1,371**	**9,214**	**57**	**2,286,164**
Commitments and contingent liabilities	**492,629**	**79,352**	**33,714**	**2,614**	**39,585**	**34**	**647,928**

At 31 December 2003:

Assets:	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	U.S.A and Canada KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Cash and short term funds	186,814	1,112	5,555	1,399	845	547	196,272
Treasury bills and bonds	452,084	-	-	-	-	-	452,084
Deposits with banks and other financial institutions	300,000	-	-	-	-	-	300,000
Loans and advances to banks	70,689	33,958	27,367	-	44,671	22,005	198,690
Loans and advances to customers	1,155,117	25,923	13,100	-	1,943	15,759	1,211,842
Investment securities	6,922	56,210	3,918	3,188	12	14,392	84,642
Government debt bonds	15,780	-	-	-	-	-	15,780
Other assets	12,849	-	-	-	-	-	12,849
Premises and equipment	11,363	-	-	-	-	-	11,363
	2,211,618	117,203	49,940	4,587	47,471	52,703	2,483,522
Liabilities and Shareholders' equity:							
Due to banks	418,535	68,949	64,636	941	4,045	1,517	558,623
Medium term loans from banks	204,205	-	-	-	-	-	204,205
Deposits from financial institutions	98,450	4,497	-	-	-	-	102,947
Customer deposits	1,177,326	43,305	7,350	17	171	-	1,228,169
Floating rate notes	-	-	58,940	-	-	-	58,940
Other liabilities	33,141	-	-	-	-	-	33,141
Shareholders' equity	297,497	-	-	-	-	-	297,497
	2,229,154	116,751	130,926	958	4,216	1,517	2,483,522
Commitments and contingent liabilities	421,958	59,698	15,150	829	45,090	77	542,802

23. FINANCIAL INSTRUMENTS (Continued)

Financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

	2004 **KD 000's**	2003 KD 000's
Letters of credit:		
Sight	**96,424**	80,979
Syndicated	**15,597**	14,843
Acceptance	**76,191**	74,678
Confirmed	**5,022**	5,287
	193,234	175,787

Financial instruments with contractual or notional amounts that are subject to credit risk

These derivative financial instruments, comprising foreign exchange and interest rate contracts, allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The amount subject to credit risk is insignificant and is limited to the current replacement value of instruments that are favourable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding. This credit risk exposure is managed as part of the overall borrowing limits granted to customers. Collateral security is not usually obtained for credit risk exposures on these instruments.

Notional amounts

At 31 December 2004

	Term to Maturity				
	Up to 1 Month KD 000's	**1-3 Months KD 000's**	**3-12 Months KD 000's**	**Over 1 Year KD 000's**	**Total KD 000's**
Foreign exchange contracts Spot and forward	**161,225**	**44,876**	**180,311**	**-**	**386,412**
Credit default swaps	**-**	**-**	**32,423**	**44,205**	**76,628**

At 31 December 2003

	Term to Maturity				
	Up to 1 Month KD 000's	1-3 Months KD 000's	3-12 Months KD 000's	Over 1 Year KD 000's	Total KD 000's
Foreign exchange contracts Spot and forward	141,778	161,474	37,058	-	340,310
Credit default swaps	-	-	-	44,205	44,205

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

23. FINANCIAL INSTRUMENTS (Continued)

A majority of the Bank's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk. The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The Bank's interest sensitivity position was as follows:

At 31 December 2004:

Assets:	**Up to 1 Month KD 000's**	**1-3 Months KD 000's**	**3-12 Months KD 000's**	**Over 1 Year KD 000's**	**Non interest sensitive KD 000's**	**Total KD 000's**
Cash and short term funds	**211,581**	**-**	**-**	**-**	**23,031**	**234,612**
Treasury bills and bonds	**38,333**	**71,940**	**374,086**	**-**	**-**	**484,359**
Loans and advances to banks	**9,887**	**56,402**	**48,464**	**-**	**1,552**	**116,305**
Loans and advances to customers	**237,421**	**186,409**	**411,452**	**558,370**	**(55,366)**	**1,338,286**
Investment securities	**-**	**729**	**-**	**14,196**	**72,662**	**87,587**
Other assets	**-**	**-**	**-**	**-**	**12,836**	**12,836**
Premises and equipment	**-**	**-**	**-**	**-**	**12,179**	**12,179**
	497,222	**315,480**	**834,002**	**572,566**	**66,894**	**2,286,164**
Liabilities and shareholders' equity:						
Due to banks	**37,751**	**59,489**	**9,416**	**-**	**1,552**	**108,208**
Medium term loans from banks	**110,000**	**44,205**	**-**	**-**	**-**	**154,205**
Deposits from financial institutions	**69,734**	**79,548**	**18,685**	**-**	**-**	**167,967**
Customer deposits	**947,175**	**272,245**	**133,219**	**5,938**	**35,161**	**1,393,738**
Floating rate notes	**58,940**	**-**	**-**	**-**	**-**	**58,940**
Subordinated loans	**-**	**44,205**	**-**	**-**	**-**	**44,205**
Other liabilities	**-**	**-**	**-**	**-**	**38,465**	**38,465**
Shareholders' equity	**-**	**-**	**-**	**-**	**320,436**	**320,436**
	1,223,600	**499,692**	**161,320**	**5,938**	**395,614**	**2,286,164**

At 31 December 2003:

Assets:	Up to 1 Month KD 000's	1-3 Months KD 000's	3-12 Months KD 000's	Over 1 Year KD 000's	Non interest sensitive KD 000's	Total KD 000's
Cash and short term funds	137,699	-	-	-	58,573	196,272
Treasury bills and bonds	30,000	145,671	276,413	-	-	452,084
Deposits with banks and other financial institutions	-	250,000	50,000	-	-	300,000
Loans and advances to banks	31,797	70,472	90,725	4,420	1,276	198,690
Loans and advances to customers	135,652	133,333	479,250	513,170	(49,563)	1,211,842
Investment securities	-	-	-	40,436	44,206	84,642
Government debt bonds	-	-	15,780	-	-	15,780
Other assets	-	-	-	-	12,849	12,849
Premises and equipment	-	-	-	-	11,363	11,363
	335,148	599,476	912,168	558,026	78,704	2,483,522
Liabilities and Shareholders' equity**:**						
Due to banks	213,609	292,387	51,075	-	1,552	558,623
Medium term loans from banks	110,000	94,205	-	-	-	204,205
Deposits from financial institutions	53,110	38,386	11,451	-	-	102,947
Customer deposits	842,359	207,891	160,416	8,254	9,249	1,228,169
Floating rate notes	58,940	-	-	-	-	58,940
Other liabilities	-	-	-	-	33,141	33,141
Shareholders' equity	-	-	-	-	297,497	297,497
	1,278,018	632,869	222,942	8,254	341,439	2,483,522

23. FINANCIAL INSTRUMENTS (Continued)

Effective Interest Rates

At 31 December 2004:

Assets:	**0%-3% KD 000's**	**3%-6% KD 000's**	**6%-9% KD 000's**	**9%-12% KD 000's**	**Non interest sensitive KD 000's**	**Total KD 000's**
Cash and short term funds	**171,010**	**40,571**	**-**	**-**	**23,031**	**234,612**
Treasury bills and bonds	**484,359**	**-**	**-**	**-**	**-**	**484,359**
Loans and advances to banks	**58,215**	**56,538**	**-**	**-**	**1,552**	**116,305**
Loans and advances to customers	**117,805**	**263,962**	**999,425**	**12,460**	**(55,366)**	**1,338,286**
Investment securities	**729**	**209**	**30**	**13,957**	**72,662**	**87,587**
Other assets	**-**	**-**	**-**	**-**	**12,836**	**12,836**
Premises and equipment	**-**	**-**	**-**	**-**	**12,179**	**12,179**
	832,118	**361,280**	**999,455**	**26,417**	**66,894**	**2,286,164**
Liabilities and Shareholders' equity:						
Due to banks	**71,525**	**35,131**	**-**	**-**	**1,552**	**108,208**
Medium term loans from banks	**134,205**	**20,000**	**-**	**-**	**-**	**154,205**
Deposits from financial institutions	**19,244**	**148,723**	**-**	**-**	**-**	**167,967**
Customer deposits	**864,128**	**494,449**	**-**	**-**	**35,161**	**1,393,738**
Floating rate notes	**-**	**58,940**	**-**	**-**	**-**	**58,940**
Subordinated loans	**-**	**44,205**	**-**	**-**	**-**	**44,205**
Other liabilities	**-**	**-**	**-**	**-**	**38,465**	**38,465**
Shareholders' equity	**-**	**-**	**-**	**-**	**320,436**	**320,436**
	1,089,102	**801,448**	**-**	**-**	**395,614**	**2,286,164**

At 31 December 2003:

Assets:	0%-3% KD 000's	3%-6% KD 000's	6%-9% KD 000's	9%-12% KD 000's	Non interest sensitive KD 000's	Total KD 000's
Cash and short term funds	137,588	111	-	-	58,573	196,272
Treasury bills and bonds	452,084	-	-	-	-	452,084
Deposits with banks and other financial institutions	300,000	-	-	-	-	300,000
Loans and advances to banks	121,156	76,258	-	-	1,276	198,690
Loans and advances to customers	190,690	637,887	423,583	9,245	(49,563)	1,211,842
Investment securities	729	-	-	39,707	44,206	84,642
Government debt bonds	15,780	-	-	-	-	15,780
Other assets	-	-	-	-	12,849	12,849
Premises and equipment	-	-	-	-	11,363	11,363
	1,218,027	714,256	423,583	48,952	78,704	2,483,522
Liabilities and Shareholders' equity:						
Due to banks	547,866	9,205	-	-	1,552	558,623
Medium term loans from banks	44,205	160,000	-	-	-	204,205
Deposits from financial institutions	43,307	59,640	-	-	-	102,947
Customer deposits	1,179,680	39,240	-	-	9,249	1,228,169
Floating rate notes	58,940	-	-	-	-	58,940
Other liabilities	-	-	-	-	33,141	33,141
Shareholders' equity	-	-	-	-	297,497	297,497
	1,873,998	268,085	-	-	341,439	2,483,522

23. FINANCIAL INSTRUMENTS (Continued)

C. CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The Bank had the following significant net exposures denominated in foreign currencies as at 31 December.

	2004 KD 000's	2003 KD 000's
Net assets (liabilities):		
US Dollars	**46,315**	11,123
Euros	**543**	(19,522)
Sterling Pounds	**1,686**	(10,600)
Japanese Yen	**14,982**	19,511
Australian Dollars	**(259)**	107
Canadian Dollars	**118**	(46)
Saudi Riyals	**(16,291)**	(19,095)
Others	**3,805**	425
	50,899	(18,097)

D. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure that adequate liquidity is maintained.

23. FINANCIAL INSTRUMENTS (Continued)

The maturity profile of the assets and liabilities at the year end based on contractual repayment arrangements is as follows:

At 31 December 2004:

Assets:	Up to 1 Month KD 000's	1-3 Months KD 000's	3-6 Months KD 000's	6 Months to 1 Year KD 000's	1 to 3 Years KD 000's	Over 3 Years KD 000's	Total KD 000's
Cash and short term funds	234,612	-	-	-	-	-	234,612
Treasury bills and bonds	38,333	71,940	156,688	217,398	-	-	484,359
Loans and advances to banks	6,207	10,679	45,891	27,944	25,584	-	116,305
Loans and advances to customers	200,819	149,813	299,128	110,623	148,303	429,600	1,338,286
Investment securities	-	-	-	-	-	87,587	87,587
Other assets	12,836	-	-	-	-	-	12,836
Premises and equipment	-	-	-	-	-	12,179	12,179
Total assets	**492,807**	**232,432**	**501,707**	**355,965**	**173,887**	**529,366**	**2,286,164**
Liabilities and Shareholders' equity:							
Due to banks	37,751	59,489	9,416	-	1,552	-	108,208
Medium term loans from banks	-	44,205	-	50,000	60,000	-	154,205
Deposits from financial institutions	69,734	79,548	17,529	1,156	-	-	167,967
Customer deposits	982,336	272,245	76,235	56,984	5,938	-	1,393,738
Floating rate notes	-	-	-	-	-	58,940	58,940
Subordinated loans	-	-	-	-	-	44,205	44,205
Other liabilities	30,644	-	4,343	3,478	-	-	38,465
Shareholders' equity	-	56,116	-	-	-	264,320	320,436
Total liabilities and shareholders' equity	**1,120,465**	**511,603**	**107,523**	**111,618**	**67,490**	**367,465**	**2,286,164**
Net liquidity gap	**(627,658)**	**(279,171)**	**394,184**	**244,347**	**106,397**	**161,901**	**-**

At 31 December 2003:

Assets:	Up to 1 Month KD 000's	1-3 Months KD 000's	3-6 Months KD 000's	6 Months to 1 Year KD 000's	1 to 3 Years KD 000's	Over 3 Years KD 000's	Total KD 000's
Cash and short term funds	196,272	-	-	-	-	-	196,272
Treasury bills and bonds	30,000	145,671	109,565	166,848	-	-	452,084
Deposits with banks and other financial institutions	-	250,000	45,000	5,000	-	-	300,000
Loans and advances to banks	51	2,963	18,590	71,462	105,624	-	198,690
Loans and advances to customers	118,360	112,627	238,639	244,914	189,465	307,837	1,211,842
Investment securities	-	-	-	-	-	84,642	84,642
Government debt bonds	-	-	-	-	-	15,780	15,780
Other assets	12,849	-	-	-	-	-	12,849
Premises and equipment	-	-	-	-	-	11,363	11,363
Total assets	357,532	511,261	411,794	488,224	295,089	419,622	2,483,522
Liabilities and Shareholders' equity:							
Due to banks	213,609	292,387	51,075	-	-	1,552	558,623
Medium term loans from banks	-	-	-	-	144,205	60,000	204,205
Deposits from financial institutions	53,110	38,386	8,221	3,230	-	-	102,947
Customer deposits	851,608	207,891	105,625	54,791	8,254	-	1,228,169
Floating rate notes	-	-	-	-	-	58,940	58,940
Other liabilities	26,171	-	3,750	3,220	-	-	33,141
Shareholders' equity	-	35,923	-	-	-	261,574	297,497
Total assets	1,144,498	574,587	168,671	61,241	152,459	382,066	2,483,522
Net liquidity gap	(786,966)	(63,326)	243,123	426,983	142,630	37,556	-

23. FINANCIAL INSTRUMENTS (Continued)

E. OPERATIONAL RISK

Operational risk arises from a failure to control properly all aspects of the documentation, processing, settlement of, and accounting for, transactions and, more widely, all the hazards to which a bank is exposed as a result of being in business and of doing business. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank. Operational risk is managed through the Risk Management Department. This department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management.

The operational risks are managed through the Risk Management Department in line with the CBK instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. PRICE RISK

This is a risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Fair values of interest bearing financial assets and liabilities not represented on the Bank's balance sheet at fair values have been estimated using prevailing interest rates for debts with similar credit risk and residual maturity. The carrying value of such financial instruments generally approximates their fair values.

Fair value of government debt bonds cannot be determined with sufficient reliability as future cash flows cannot be determined reliably.

25. CONTINGENT LIABILITIES AND COMMITMENTS

These financial statements do not reflect the following commitments and contingent liabilities which arise in the normal course of business.

	2004 KD 000's	2003 KD 000's
Guarantees		
Contract	**259,010**	218,759
Tender	**50,718**	33,635
Syndicated	**19,850**	10,853
Other	**125,116**	103,768
	454,694	367,015

Irrevocable commitments to extend credit at the balance sheet date amounted to KD45,833,000 (2003: KD71,327,905). Most of the commitments expire within 5 years.

26. SEGMENTAL ANALYSIS

a. By Business Unit

Treasury & International

Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Domestic Banking

Principally handling individual customer deposits and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and handling loans and other credit facilities, deposits and current accounts for corporate and institutional customers.

26. SEGMENTAL ANALYSIS (Continued)

At 31 December 2004	**Treasury & International KD 000's**	**Domestic Banking KD 000's**	**Total KD 000's**
Income Statements			
Interest income from external sources	**31,075**	**75,860**	**106,935**
Net Profit	**24,000**	**50,646**	**74,646**
Balance Sheets:			
Assets			
Net Assets	**988,957**	**1,297,207**	**2,286,164**
Liabilities and shareholders' equity			
Deposits	**544,292**	**1,382,971**	**1,927,263**
Other Liabilities	**5,106**	**33,359**	**38,465**
Central Treasury	**119,123**	**(119,123)**	**-**
Shareholders' equity	**320,436**	**-**	**320,436**
	988,957	**1,297,207**	**2,286,164**

At 31 December 2003	Treasury & International KD 000's	Domestic Banking KD 000's	Total KD 000's
Income Statements			
Interest income from external sources	30,247	56,862	87,109
Net Profit	16,324	32,133	48,457
Balance Sheets:			
Assets			
Net Assets	1,288,734	1,194,788	2,483,522
Liabilities and shareholders' equity			
Deposits	897,101	1,255,783	2,152,884
Other Liabilities	4,928	28,213	33,141
Central Treasury	89,208	(89,208)	-
Shareholders' equity	297,497	-	297,497
	1,288,734	1,194,788	2,483,522

b) By Geographical Area

All significant segment revenue from external customers is derived from customers based in Kuwait. Geographic segment information relating to location of assets is given in note 23 A.